'Spurring sustainable growth by raising competitiveness, innovation, fulfilling our commitments, strengthening our markets, and building trust'

Input The Netherlands, Four Presidents' Report, March 2015

Short term measures

The Netherlands sees an urgent need to spur sustainable growth, create jobs and build trust and confidence in the EMU. There is no time for complacency. We should invest all our political energy in those measures we can and should take right now, within the context of the current treaties. Thus the Four Presidents' Report should focus on short to medium term measures to improve the competitiveness and functioning of the EMU as a whole and improve the trust and confidence among Member States and of citizens and businesses.

Member States should not exclusively look at Brussels, Frankfurt or Luxemburg for new frameworks or initiatives, but take responsibility and do their part now. Member states must (1) modernize their economies to enable growth, jobs and investment, (2) the Single Market must be deepened to spur further trade, and (3) a 'better governance' agenda needs to be forged for our national administrations to become the most reliable and efficient foundations of a robust and flourishing EMU. More common rules can only have added value in a Union with Member States that are all willing and able to provide the same basic level of national governance to their citizens and businesses.

1. *Modern Economies*[i]

Individual EMU economies need to be strong and flexible. This is required to boost growth, to revive real sustainable convergence in welfare and to increase resilience to shocks and crises. However, macroeconomic imbalances continue to be a drag on growth in the Eurozone. Structural reforms are too often shunned and Member States' track record of implementing country-specific recommendations is poor. Members of a viable monetary union have to take full responsibility, and agreements have to be respected to enable structural steps towards more real convergence, higher growth, and employment.

The current EMU framework actually has appropriate instruments to stimulate the necessary measures. As long as the full capacity of existing rules is not being used, new rules will not help us. The potential that the current framework offers to stimulate reforms has to be used fully to improve the credibility, transparency and predictability of this relatively young system. Proper implementation of recommendations and existing agreements is the solution to many of our problems.

There is room within the existing framework to ensure it is effectively used as intended. The following elements should be considered:

- *Focus*: Focusing on a limited number of essential reforms per Member State within the European Semester and focusing on the Member States with severe imbalances (the largest reform needs), will enhance peer pressure. These reforms should be well specified, time-bound and have a positive impact on potential growth in the medium to long term, and thus on the health of public finances.
- *Ownership*: To create ownership, a debate at the political level is essential, not only on intentions but also on concrete timelines and actual implementation of necessary national reforms. Benchmarking country performances in targeted reform areas could be an important additional tool to improve the reform implementation record.
- *Sticking to the rules*: For corrective mechanisms to be effective, they must be credible. The Commission should fully use its mandate and the instruments at its disposal in order to ensure – in a predictable and transparent manner - compliance by all Member States with the Stability and Growth Pact, the Macroeconomic Imbalance Procedure and the implementation of country specific recommendations.

2. *Deepening the Single Market*[ii]

The EU represents the biggest single market in the world. We are still far from full exploitation of its possibilities. Unlocking the vast potential the internal market has to offer, especially in the digital, services, capital, energy and labour markets, will form a direct and critical contribution to enhancing the stability of the EMU. On the one hand, potential growth will receive a boost by improving the

investment climate and attracting investment, while on the other hand the flexibility of the Eurozone economies will be enhanced, thereby improving shock resilience. It's important to set deadlines and deliver on implementation.

This is very urgent regarding digital Europe, citizens and consumers should be able to reap the benefits of the full potential of this industry. The EU needs an ambitious Digital Single Market Package to modernize copyrights, simplify online shopping and improve telecom markets.

In the services market the need for a more ambitious implementation of the services directive is clear. According to the Commission this would increase GDP by 1.5% on average. Many remaining obstacles would not stand the test of proportionality, such as shareholding requirements, protection of certain professions or restrictions on the number of services providers on the market. The Netherlands calls on the Commission to address these with new proposals and strict enforcement, focusing on sectors with the greatest economic potential. The focus of a new Single Market strategy should be on national reforms via implementation of relevant country specific recommendations and new initiatives e.g. improving the application of the mutual recognition principle or removing remaining legal form and shareholding requirements.

The Capital Markets Union is one of the flagship initiatives of this Commission. Its objective is to produce a more diverse, competitive and resilient financial system, thereby contributing to growth and jobs. It is also an essential prerequisite for improving the investment climate and attracting foreign investment to the EU. Well-developed capital markets could also act as important macro-economic shock-absorbers by enhancing private-sector risk sharing. The Netherlands is therefore pleased to see that a green paper has been launched and urges the Commission to take further steps to establish a fully functioning single market for capital.

In the energy market the full implementation and application of existing internal energy market legislation needs to be enforced. Moreover, there is a need for adequate infrastructure networks and we need to increase flexibility in the energy system. Regional cooperation can be a good start to enhance further market integration.

Finally, stimulating labour mobility is essential to trigger growth and higher employment. Free movement of labour is one of the essential benefits of our Single Market, while labour mobility within the EU is still relatively low. EU initiatives in this field should at the same time be accompanied by measures to promote decent work, to protect EU mobile workers on the basis of the principle of equal pay for equal work at the same place.

3. *Forging a 'better governance' agenda*[iii]

The crisis has proven that there are weaknesses in our national administrations: whether it's about the quality of our statistics or the efficiency of our public services. Such deficiencies affect the resilience of the EMU as a whole and have a negative impact on the investment climate. Problems in one Member State have immediate spill-over effects for others. We, Member States, citizens and businesses, need to have confidence that all national administrations work towards efficient, effective, transparent and fair governance. Strong Member States make for a strong Union.

To be sure, elements of good governance exist throughout EU law, programs and initiatives, ranging from the 'Copenhagen criteria' to the Annual Growth Survey, the EU Justice Scoreboard and the Rule of Law to the SGP. However, now the time has come to bring these strands together and put them to work. Together Member States have to explore what is possible within the existing framework to improve governance of national administrations relevant to better governance in the EMU, and develop new initiatives to strengthen the quality of our national administrations. This might for example include exchanging best practices regarding the fight against corruption. Benchmarking, peer pressure, political discussions and exchange of best practices could be considered as tools. Not to judge and to punish, but to acknowledge and to address.

Long term developments[iv]
While we have been building with the institutional speed of light under duress of the crisis, popular support, dependent on growth and jobs, has been waning partly due to a slow recovery and relative unease with the process of European decision making. The full benefits of the current EMU framework have not yet been captured, all the more so, because implementation of the instruments has not been complete and not all instruments have been used.

Therefore, first and foremost, existing instruments should be used to achieve growth, fiscal consolidation, employment, convergence and shock resilience. Efficient and optimal use of the current framework, combined with deepening of the Single Market and better governance is the way to gain popular trust. Addressing questions in the realm of further risk sharing, new competences or institutions in the Four Presidents' Report is premature. It is essential to regain confidence and trust by making the current system work better, at an EU level and at a national level, and deliver the results that people rightfully demand.

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[i] *This heading addresses the following questions from the Analytical Note "Preparing for Next Steps on Better Economic Governance in the Euro Area":*
- *How can we ensure sound fiscal and economic positions in all euro area Member States?*
- *How could a better implementation and enforcement of the economic and fiscal governance framework be ensured?*
- *Is the current governance framework – if fully implemented – sufficient to make the euro area shock-resilient and prosperous in the long run?*
- *To what extent can the framework of EMU mainly rely on strong rules and to what extent are strong common institutions also required?*
- *What instruments are needed in situations in which national policies continue – despite surveillance under the governance framework – to go harmfully astray?*

[ii] *This heading addresses the following question from the Analytical Note "Preparing for Next Steps on Better Economic Governance in the Euro Area":*
- *How could private risk-sharing through financial markets in the euro area be enhanced to ensure a better absorption of asymmetric shocks?*

[iii] *This heading addresses the following question from the Analytical Note "Preparing for Next Steps on Better Economic Governance in the Euro Area":*
- *How can accountability and legitimacy be best achieved in a multilevel setup such as EMU?*

[iv] *This heading addresses the following questions from the Analytical Note "Preparing for Next Steps on Better Economic Governance in the Euro Area":*
- *To what extent is the present sharing of sovereignty adequate to meet the economic, financial and fiscal framework requirements of the common currency?*
- *Is a further risk-sharing in the fiscal realm desirable? What would be the preconditions?*
- *Under which conditions and in which form could a stronger common governance over structural reforms be envisaged? How could it foster real convergence?*